Annual Sustainability Report 2021
Fulcrum Diversified Absolute Return Strategy

fulcrumasset.com

FULCRUM
Investment innovation
Macro foundations

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Working in harmony creates a reassuring investment process

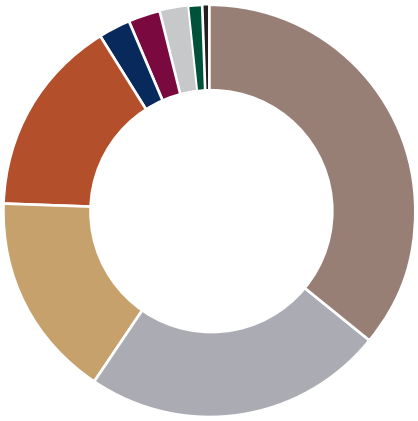
Executive summary

Since 2004, we have built Fulcrum into a team of 83 people which includes economists, asset class specialists and researchers. We have offices in the UK (HQ), the US and Japan.

We are proud to have built a strong, experienced investment team with a real passion for investing. Today our AUM stands at £4.3bn / US $5.9bn (figures as at 31.12.21). As an investment boutique we are large enough to enjoy economies of scale and a breadth of expertise but equally we are nimble enough to be able to respond quickly to market events or alter course whenever we see opportunities.

At the same time, we have the ability to adapt and innovate in a way that many larger firms might find challenging. Through our unique and transparent investment approach, our aim is to build lasting relationships based on the alignment of our clients' interests with our own.

Client Type



- Pension Funds
- Wealth Managers
- Superannuation
- Government
- Charities & Endowment
- Platforms
- Investment Bank
- Private Clients
- Family Offices

The Fulcrum Investment Team

- Portfolio Management
- Alternative Solutions
- Research
- Portfolio Engineering
- Investment Committee
- Risk Management

Source: Fulcrum Asset Management LLP, as at 31/12/2021

We operate five key investment capabilities: Macro & Multi-Asset, Risk Premia, Alternative Solutions, Climate-aligned Investing and Thematic Equities, spanning systematic and discretionary investments, managed both internally and externally.

Fulcrum has made a firm commitment to being a responsible investor, with sustainability representing one of our five core firm values:

FULCRUM VALUES

Excellence	Integrity	Innovation	Collaboration	Sustainability
Each and every time we engage with clients, we endeavour to produce work of the highest quality. — We strive for investment excellence through a repeatable approach that is research-driven and evidence-based. — We must recognise our own limitations and be aware of our behavioural biases.	Integrity and honesty are at the heart of our business. We expect our people to maintain high ethical standards in everything they do. — Our clients are the real risk-takers. They are entitled to the bulk of the gains and fees should be fair. Clients should pay little for beta and nothing for luck.	We aim to challenge conventional wisdom and expand the frontier of knowledge by building on the work of academic experts and experienced practitioners. — We value reflection and continuous improvement. Even a small edge in expertise, if well defined, is of great value.	Firm-wide collaboration is integral to our success. We believe in leveraging our collective knowledge and improving decision-making through cooperation and constructive debate. We expect everyone to work as a cohesive team. — Our assets are our people. Managers are expected to foster an environment where team members feel supported and motivated.	We invest responsibly with a particular focus on mitigating climate change. — Meaningful integration of environmental, social and governance considerations requires much more than optimising "scores". — Achieving multi-dimensional diversity in our workforce is a gradual but essential process. We must include women and men from all backgrounds.

Our mission is to provide clients with innovative solutions built on solid macro foundations. To achieve this, we aim to create an inclusive workplace that inspires excellence and offers deep professional satisfaction to our employees.

We are aware of the challenges facing the natural environment and believe that financial markets have an important role to play to create a more sustainable world.

For us, this means:

- enabling our investment professionals to consider and integrate environmental, social and governance (ESG) risks in their investment decision-making;
- channelling more capital to address ESG challenges such as climate change;
- acting as good stewards of capital in the way we exercise our voting rights;
- engaging with companies and the wider industry; and
- communicating and interacting with our clients on these issues.

We received an "A" rating in our latest assessment from the UN Principles for Responsible Investment and are proud to be a signatory of the UK Stewardship Code.

We value having an integrated approach, with responsibility for the management of ESG risks and opportunities sitting inside the investment team.

Signatory of:

"Scrutiny on the responsibilities of investors has never been greater – and we are stepping up. We believe Fulcrum's approach to sustainability is:

Innovative – from extending some of our trading algorithms to incorporating ESG risks to our thought leadership on climate change, we aspire to combine academic rigour with years of practitioners' experience to break new ground as a firm, engaging not just with the companies we invest in, but also our clients, data providers, stock brokers, policy-makers and investor networks to push for sustainable markets.

Integrated – ESG considerations influence decisions across multiple areas of the firm, from the monitoring of risk, to thematic equity allocations and the selection of external managers, with newly hired sustainability-focused roles, and ESG incentives and training rolled out across our workforce."

Matthew Roberts, Partner and Chair of Responsible Investment Committee

Our work on sustainability

Sustainability is a broad concept, drawing on environmental factors as well as the conditions underpinning the long-term durability of business models. This report aims to illustrate our recent efforts across these multiple fronts – from the increased consideration given to the ESG profile of our investments (with particular focus on addressing climate change), to improvements in our investment processes and changes in our office practices.

Responding to a changing climate

We recognise that ESG themes play a growing role in the valuation of investments. It is our belief as a firm that climate change poses a systemic risk, creating the imperative to set the global economy on track for net zero. As a result, we have devoted significant research and resources to better understand our role in mitigating this risk and seizing related opportunities. The 2020 launch of the Fulcrum Climate Change Strategy was an important milestone along this journey, which continues as we strengthen the sustainability standards associated with our investments, our voting and our engagement with companies and stakeholders.

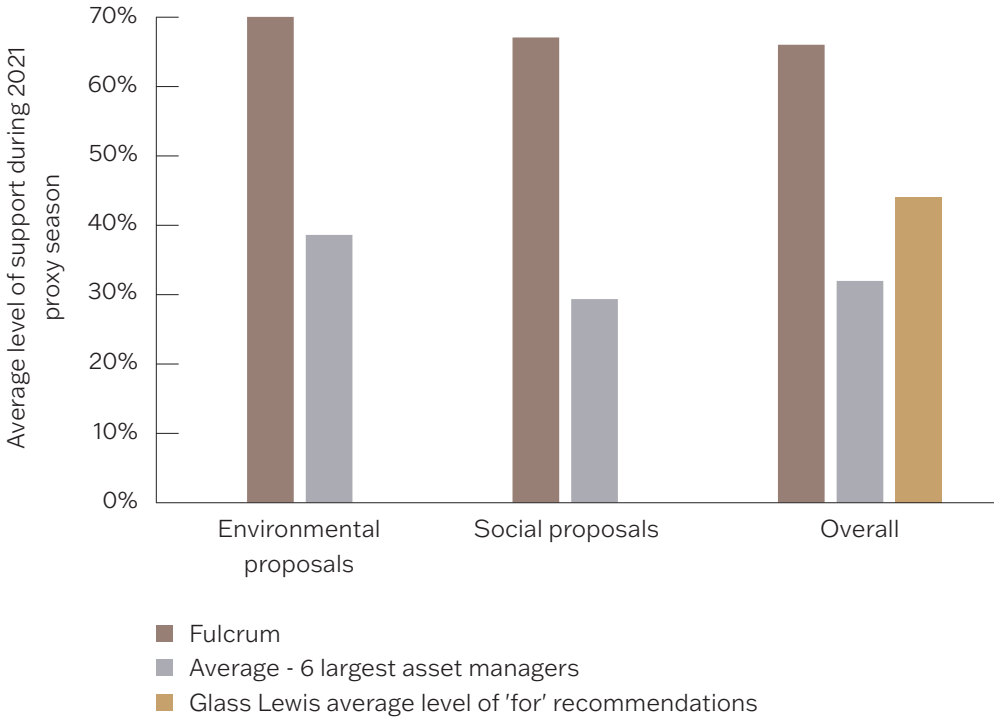
As a member of the Net Zero Asset Managers Initiative, we have committed to reach net zero across our assets, with initial work focused on aligning many of our directional, long-only holdings of corporate equity and debt to a facilitate the transition to a low carbon economy. This membership is part of our increased collaboration

with investor networks such as Climate Action 100+, the Institutional Investor Group on Climate Change (IIGCC), or the UN Principles for Responsible Investment, which seek to promote more sustainable markets.

See p. 14 for more details on collaboration and stewardship

At the same time, we individually aim to hold investee companies accountable on ESG performance, through engagement and voting.

Over the 2020-21 proxy season, Fulcrum supported more environmental and social shareholder proposals than many of the world's largest asset managers



Sources: ShareAction, Voting matters 2021 (survey of the voting practices of the 65 largest asset managers, available here); Glass Lewis, Fulcrum Asset Management LLP

Innovation in practice

We are applying our knowledge and expertise to expand the frontiers of responsible investment into new areas – for our firm and in some cases, we hope, for the entire market.

In 2021, we have incorporated measures of ESG risk into our trend-following strategies, part of our Systematic Risk Premia capabilities.

Alongside our partners at Arvella Investments, we launched an innovative new platform, ESGforInvestors.com, offering free-to-use ESG

tools that strive to boost impact and risk-adjusted returns. The portfolio tools equip investors to consider ESG datapoints (such as a portfolio's Implied Temperature Rise) within a unified framework for asset allocation. The platform also identifies potential share price increases for over 2000 large companies, which we can use as the basis of targeted corporate engagement.

We believe that our expertise and insights can serve as a fulcrum for positive impact achieved through collaboration. That is why Fulcrum has joined workstreams on climate alignment in the context of overall portfolios (under the Glasgow Financial Alliance for Net Zero) and derivatives as a specific asset class (under IIGCC).

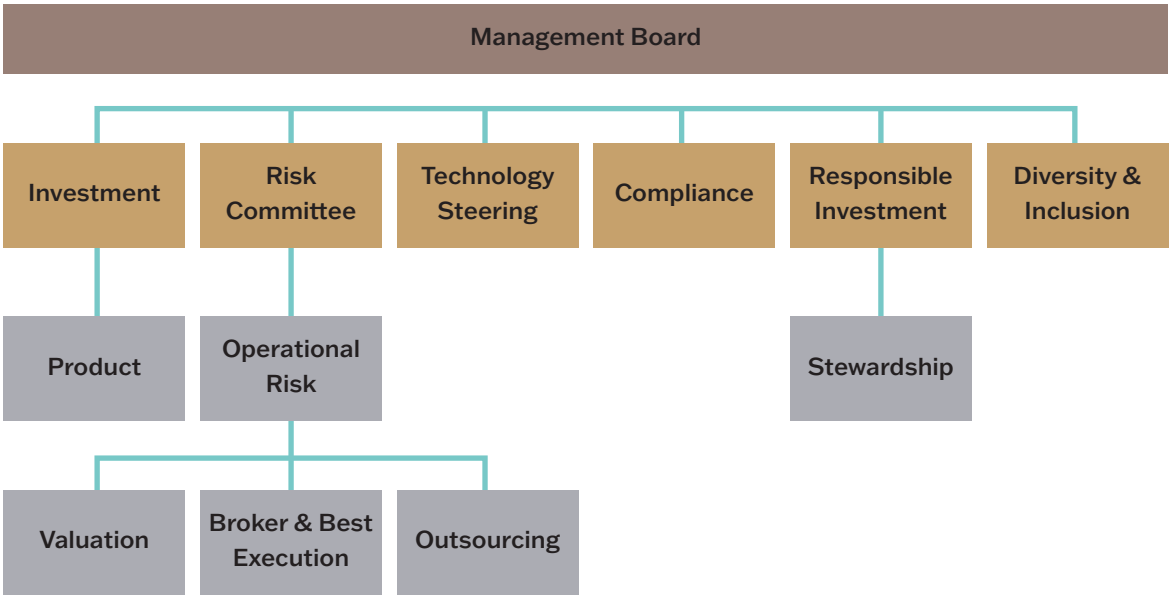
See pages 15-16 for more information

We recognise that more sustainable markets must pay due regard to people, as well as the planet. We therefore do not invest in activities that we believe have a disproportionately negative social impact, including predatory lending, tobacco, and controversial weapons. And we seek to constantly improve our own internal practices and policies, creating a workplace where employees feel valued and supported.

In 2021, we offered time off and matching charitable donations to encourage employees to volunteer, alongside subsidised wellbeing initiatives including nutrition and fitness. We supported employees as they adapted to new working patterns and now operate under a flexible working programme.

We have also increased the resources dedicated to sustainability. Over the past year, we have enhanced our capabilities in stewardship reporting, and climate finance, including two new full-time members of staff.

As resources grow, so does the importance of appropriate oversight – the 'G' of 'ESG'. Fulcrum's Management Board directly oversees our efforts to improve sustainability and diversity, as part of Fulcrum's broader governance framework illustrated below:



We take pride in our work so far but remain acutely aware that much remains to be done, from tackling the challenges associated with expanding ESG integration into new themes and asset classes, to improving the diversity of our workforce.

See page 16 for more information on our action plan

We are pleased to share with you this report, detailing the progress made on sustainability in 2021, by Fulcrum as a whole, as well as for the Diversified Absolute Return Strategy, and what lies on the road ahead.

Introduction to the Strategy

The Fulcrum Diversified Absolute Return (DAR) strategy targets long-term absolute returns in all market conditions over rolling five-year annualised periods, with lower volatility than equity markets. In doing so, the strategy aims to achieve a positive return on a rolling three-year basis.

DAR seeks to help our clients generate consistent returns over a 5-year period. Since launch, the strategies have delivered strong risk-adjusted returns with a low correlation to equities. The strategy is thus designed to be complementary to investors' global equity allocations, with investments strictly limited to highly liquid instruments so that our clients can access their capital when they need it.

The profile of our investment strategy can be seen below; a detailed breakdown of how we integrate ESG considerations within our main strategies will be illustrated in the report.

	Directional		Relative Value		Diversifying Strategies		Diversified Absolute Return
Description	Directional views across all asset classes (core & satellite)		Market neutral inter and intra asset class views (core & satellite)		Liquid diversifying strategies		**Absolute Return**
Percentage of Risk	30-40%	+	30-50%	+	10-15%	=	**6-8% volatility**
Historical Beta to Equities	+0.3		-0.1		+0.1		**+0.2**

In seeking to achieve its investment goal, we will hold a diversified portfolio, typically consisting of equities, fixed income, commodity-related instruments and cash. Investments may be made through collective investment schemes (including absolute return funds, index funds such as exchange traded funds (ETFs) and actively managed funds). Indirect exposure to commodities may be sought through investment in transferable securities, eligible index derivatives and collective investment schemes.[1]

1 The particular combination of asset classes and strategies will depend on the specific vehicle accessed

Strategy highlights 2021-22

- We have strengthened the sustainability profile across different components of the Strategy.
- We have conducted due diligence on ESG data providers and expanded the range of environmental data points we can access.
- We have pledged to invest the strategic, long-term equity component of the Strategy's directional allocation only in climate-aligned companies.
- We have introduced a novel methodology to analyse ESG risks in the systematic trend-following component of the Strategy.
- We have adopted a custom voting policy to hold investee companies to higher standards on sustainability, and expanded our resources devoted to engagement with issuers and stakeholders.
- We have contributed to the launch of a free-to-use ESG data and analytics platform, ESGforInvestors.com.
- We have continued to respond to a dynamic market environment that is increasingly affected by sustainability considerations.

Integrating ESG into our investment strategy

Below, we describe the incorporation of E, S, and G considerations into our investment process by looking at each factor separately. Please note that we are mainly concerned about un-managed E,S and G risks and are focusing our efforts in the equity space at the moment given the lack of rigorous standards in other asset classes.

Moreover, we also expand on some more innovative ways of incorporating sustainability considerations in our investment process.

Environmental

We regard climate change as one of the largest risks facing investors over the medium- to long-term, and we believe that climate-aligned investing can boost risk-adjusted returns, especially relative to an approach that minimises backward-looking carbon emissions.

We are aware that climate alignment is still a relatively new metric though development and application of the approach is moving quickly. We believe it is a helpful tool to guide our focus regarding driving financial flows to mitigate the impact of climate change, especially in the equity space.

We also monitor a range of other carbon and climate metrics. We subscribe to Sustainalytics for our environmental risk data, which covers a range of environmental data points such as resource use, land use and biodiversity in the supply chain and carbon use.

Social

We obtain "S" risk data from Sustainalytics and this covers a broad range of data points such as business ethics, human rights in the supply chain and human capital. Companies exposed to scandals or frauds often under-report the extent of the fraud initially, and running scenario analysis using historical damage from similar scandals allows us to judge the ultimate effect on the business in various scenarios.

Governance

We use a combination of quantitative and qualitative approaches to identify the relevant factors. For quantitative data, we use "G" risk data from Sustainalytics to identify any material risk while we assess companies qualitatively from the knowledge gained from our meetings with senior management teams. For example, we assess whether companies are taking appropriate action to meet the latest regulatory environment in their sector and country of operation. Combining the quantitative and qualitative approaches helps us to determine whether a company meets our expectations in terms of good governance.

Incorporating sustainability characteristics in other aspects of the Strategy

In 2021, we conducted a review of ESG data providers, to expand the range of environmental indicators we have access to, including data sets on implied temperature rise, as well as indicators relating to 'green' activities as defined in EU sustainable finance disclosure rules.

Part of our strategic allocation already invests in climate-aligned equities, that is stocks that are aligned with the objectives of the Paris Agreement temperature target. Reflecting our belief in the materiality of climate risks and opportunities, in 2021 we decided to shift the remaining of the strategic equity holdings into climate-aligned securities.

The implementation will be done via physical holdings as this will allow us to better hold companies accountable through voting and engagement; physical exposure offers voting rights in respect to the underlying securities.

Within our thematic equities exposure, sustainability considerations also influence the bottom-up theme. As illustrated below, a number of themes are designed to take advantage of sustainability-related tailwinds, whilst some of the short positions have been designed as a hedge against ESG tailwinds – for example, increasingly health- and environmentally-conscious consumers eschewing processed food.

Case study: Data due diligence

In 2021, we conducted a review of ESG data providers, to expand the range of environmental indicators we have access to, including data sets on implied temperature rise, as well as indicators relating to 'green' activities as defined in EU sustainable finance disclosure rules.

In 2021, we joined the working group from the Institutional Investors Group on Climate Change (IIGCC) to help define and implement best practice relating to derivatives.

At the same time, as discussed below, throughout 2021 we have developed our own methodology for integrating ESG risks into elements of our systematic trading, regarding trend-following. We may, over time, seek to adapt elements of this approach in some of these other asset classes and investment strategies.

Systematic, rules-based investment strategies represent a driver of diversification for the Strategy. However, progress in the incorporation of ESG considerations into such strategies has generally been slow in the market.

Themes	Impact
Clean Energy	Renewable energy sources minimise carbon pollution and reduce demand for dirty fossil fuels. Those alternatives are becoming more cost-effective, supported by governmental investments in innovations and grants focused on the deployment of new technologies.
Salmon	Salmon production has a smaller carbon footprint than other animal-based protein sources. It consumes less water per kilo edible than meat, has a lower feed rate and a higher edible yield. Higher ESG awareness and trends toward healthier eating practice should boost demand and benefit salmon farming.
LNG Producers vs Pipelines	The energy transition will involve an initial move away from coal and oil towards cleaner hydrocarbons like natural gas (LNG). LNG has a lower carbon impact than oil-based fuels and supports the efforts towards CO2 neutrality during the deployment phase of renewable energy sources.
Airlines	Aviation is one of the most carbon intensive forms of transportation. Reducing airline emissions involves substantial costs in innovation in more fuel-efficient engines and increased pressure on additional taxation and emission trading schemes.
Rails	Rail transportation is taking share from other modes of transportation. Rail transportation is far more energy efficient than trucks as emissions from operating trains are generally lower because of the heavy reliance on electricity. Transition of trucks to alternative fuels is still a long way away.

In 2021, we developed a measure of ESG risk to support the trend-following component of the Strategy treading new ground for Fulcrum as a whole – and potentially for this area of the market – following collaboration between the risk, research and systematic teams.

We have obtained ESG country risk ratings from Sustainalytics, developed them into a measure of investment risk consistent with our existing internal metrics, and mapped onto the four main asset classes of the Strategy: equities, fixed income, commodities and currencies. We then 'tilt' away towards assets with lower ESG risk, with ESG risk aversion set to the largest possible value that doesn't result in a statistically significant change in the expected return of the Strategy.

Case study: Shorting the 'gig' economy

'Zero-hour' contracts and the long-term sustainability of the 'gig economy' are coming under increased scrutiny.

The Strategy has taken a short position in 'gig economy' stocks. Increased competition from newcomers with easy access to capital are eroding the margins in this space, with long-standing controversies around the treatment and pay of the workforce setting the scene for increased regulation, adding to the headwinds in the sector

Country risk case study: Russia

Our internal Risk Committee prohibited trading in securities, primarily debt, associated with the Russian government in 2018, in response to actions contravening internationally accepted norms.

The market allocation process is based on a risk budgeting optimisation framework that inputs long-term correlation estimates and a set of risk measures capturing both investment and ESG risk.

By incorporating ESG risk into the market allocation process of the Strategy we effectively tilt the portfolio towards low ESG assets and away from high ESG ones, improving the sustainability characteristics of trend-following. The level of ESG risk aversion is chosen to be the largest possible value that does not result in a statistically significant change in the expected returns of the Strategy – thus 'solving' for the highest ESG improvement compatible with the Strategy's objectives.

This has resulted in a reduced allocation to certain regions shown to have higher ESG risks (in particular, in emerging markets) as well as to certain commodities (for example, coffee production, given potential negative impacts on biodiversity).

Historically, trend-following has shown that it can deliver strong real return across inflationary regimes. This is primarily achieved by leveraged directional exposures to commodity markets. Given the growing investor concerns around ESG risks, but also inflation, we believe that ESG integration into a multi-asset systematic investment framework is an essential development, testimony to our ambitions to remain innovative in our approach. For further details, please refer to our research paper, available online – Integrating ESG risk into Trend Following.

Stewardship, voting and fund reporting

The actions taken in the selection of investments is complemented by our stewardship, including through voting and engagement.

Voting

in 2021, the adoption of Glass Lewis' Climate Overlay service (which results in more stringent ESG voting standards, compared to their "house" proxy advice) has been an important development in strengthening our voting stance and holding companies accountable for their sustainability strategy. As a result, in 2021, **the Strategy supported 60% of shareholder resolutions relating to the environment.**[2]

More details on significant votes and our engagement are provided below.

We have identified four types of significant votes: firstly, votes relating to climate change or the environment; secondly, shareholder proposals as these tend to be most likely to include items of interest to shareholders or the general public. Thirdly, votes where we voted against the proxy adviser's recommendation as these could be considered significant as it is a diversion from our usual voting pattern; and finally, meetings related to companies that have a high weighting in the portfolio/firm.

Voting Statistics (Applicable To The Scheme's Reporting Period)	Response
How many meetings were you eligible to vote at?	405
How many resolutions were you eligible to vote on?	7968
What % of resolutions did you vote on for which you were eligible?	99.9%
Of the resolutions on which you voted, what % did you vote with management?	91%
Of the resolutions on which you voted, what % did you vote against management?	7%
Of the resolutions on which you voted, what % did you abstain from voting?	2%
In what % of meetings, for which you did vote, did you vote at least once against management?	40%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	1.0%

2. Statistics displayed are for the OEIC version of the Strategy

AMAZON	Date of vote: **26-May-21**
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	**<1%**

Summary of the resolution
Shareholder Proposal that the board report on the amount of Plastics released due to Plastic Packaging.

How you voted	**FOR**
Where you voted against management, did you communicate your intent to the company ahead of the vote?	**No**

Rationale for the voting decision
Though Glass Lewis understands the larger environmental risks stemming from plastic pollution, in this case they believed the company had taken significant actions and provided disclosures regards minimising its carbon footprint. As such, the proxy advisor were not convinced that shareholders would necessarily benefit from the Company's adoption of this proposal. Given the type of proposal, and following discussions, we decided to vote against their advice and as a result voted FOR the proposal.

Outcome of the vote	**AGAINST**

Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?
We would likely vote in a similar way if we were to vote again on this resolution.

On which criteria have you assessed this vote to be "most significant"?
This was an ESG Vote, was a Shareholder proposal, and involved us voting against the proxy advisor's recommendation.

FERROVIAL S.A.	Date of vote: **08-Apr-21**
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	**<1%**

Summary of the resolution
Management Proposal Regarding Adoption of an Annual Vote on the Company's Climate Strategy Report

How you voted	**FOR**
Where you voted against management, did you communicate your intent to the company ahead of the vote?	**N/A**

Rationale for the voting decision
Glass Lewis thought it was unclear that adoption of this proposal was necessary in order to ensure shareholders have the kind of meaningful disclosure that allows them to assess the Board's performance on the issue of climate risk management. Given the totality of circumstances, they believed it was in Shareholders' best interests to vote against this proposal. However, following further discussions, we voted contrary to Glass Lewis' advice, thereby voting FOR the proposal.

Outcome of the vote	**FOR**

Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?
We would likely have voted in a similar way if we were to vote again on this resolution.

On which criteria have you assessed this vote to be "most significant"?
This was an ESG Vote and involved us voting against the proxy advisor's recommendation.

MICROSOFT CORPORATION	Date of vote: **30-Nov-21**
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	**<1%**
Summary of the resolution **Shareholder Proposal Regarding Report on Alignment of Lobbying Activities with Company Policies**	
How you voted	**FOR**
Where you voted against management, did you communicate your intent to the company ahead of the vote?	**No**
Rationale for the voting decision **Glass Lewis' viewed the Company's current lobbying policies, expenditures, and level of disclosure thereon to be reasonable, including with regard to alignment with Company policies and principles, and do not believe that the proponent has demonstrated that the Company's management of this issue is deficient to the degree that warrants adoption of this proposal. However, after internal discussions on this proposal, we decided to vote against their advice and as a result voted FOR the proposal.**	
Outcome of the vote	**AGAINST**
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome? **We would likely have voted in a similar way if we were to vote again on this resolution.**	
On which criteria have you assessed this vote to be "most significant"? **This was a Shareholder proposal, was an ESG (social) related, and involved us voting against the proxy advisor's recommendation.**	

UNION PACIFIC CORPORATION	Date of vote: **13-May-21**
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	**<1%**
Summary of the resolution **Shareholder Proposal to disclose a GHG emissions report, a reduction plan, and to allow shareholders to vote on the reduction plan annually**	
How you voted	**FOR**
Where you voted against management, did you communicate your intent to the company ahead of the vote?	**N/A**
Rationale for the voting decision **Glass Lewis are fully supportive of the Company producing-- and believe shareholders should clearly communicate to the board that they require - comprehensive climate reporting in order to ensure that directors are effectively managing climate-related risks. However, they had significant concerns regarding the provisions of this proposal that would allow shareholders to have a vote on the Company's climate strategy. Following further discussions, we voted contrary to the Glass Lewis advice, thereby voting FOR the proposal.**	
Outcome of the vote	**AGAINST**
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome? **We would likely have voted in a similar way if we were to vote again on this resolution.**	
On which criteria have you assessed this vote to be "most significant"? **This was an ESG Vote, was a Shareholder proposal, and involved us voting against the proxy advisor's recommendation.**	

COCHLEAR LTD; RENISHAW PLC	Date of vote: **19-Oct-21; 24-Nov-21**
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	**<1%**
Summary of the resolution **Remuneration report**	
How you voted	**AGAINST**
Where you voted against management, did you communicate your intent to the company ahead of the vote?	**No**
Rationale for the voting decision **Remuneration policies are essential in promoting the long-term alignment of interests between executives and shareholders. Glass Lewis recommended a vote against the remuneration reports at these companies, due to a 'failure to incentivise the mitigation of material environmental and social risks'.**	
Outcome of the vote	**FOR**
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome? **We will continue to monitor the alignment between executive remuneration encourages and long-term corporate sustainability.**	
On which criteria have you assessed this vote to be "most significant"? **The vote illustrates the application of our enhanced voting policy, which goes beyond just supporting, where appropriate, ESG resolutions which happen to be on the ballot, by also seeking to create explicit linkages between ESG performance and voting recommendations on other ballot items, such as the election of directors, or, in this case, remuneration.**	

Engagement

Voting represents an important component in holding companies accountable, as part of our ongoing engagement and stewardship efforts, which are twofold:

- Direct engagement: we are in direct contact with our holdings through letters, calls and company meetings
- Collective engagement: we partner with initiatives to lend our voice and votes to support climate change initiatives

In 2021, the equities team has engaged with over 40 companies on sustainability topics, primarily raising our expectation as a firm that they reduce carbon emissions and/or set Science-Based Targets.

More details on our work can be found in our Stewardship Report.

We are currently revising our voting engagement strategy, to incorporate insights from the ESG for Investors platform (in terms of engagement candidates which have high potential share price upside from improving ESG performance) as well as commitments made under the Net Zero Asset Managers Initiative (NZAMI) (in terms of 'red lines' for voting), with further details to be made public in 2022.

We also engage with third-party investment managers in some of our DAR Strategies. We complete an annual sustainability review across all the external manager relationships within our Alternative Solutions team. Through this process we reassessed each manager's sustainability scores,[1] assigned to them during our due diligence process. We believe this represents an additional tool to achieve impact. A number of managers have made improvements (for example, commitments to reduce their emissions or strengthen ESG integration) following our engagement.[3]

3 Based on our proprietary scoring system. Note this will be relevant only to versions of the DAR Strategy which use external managers.

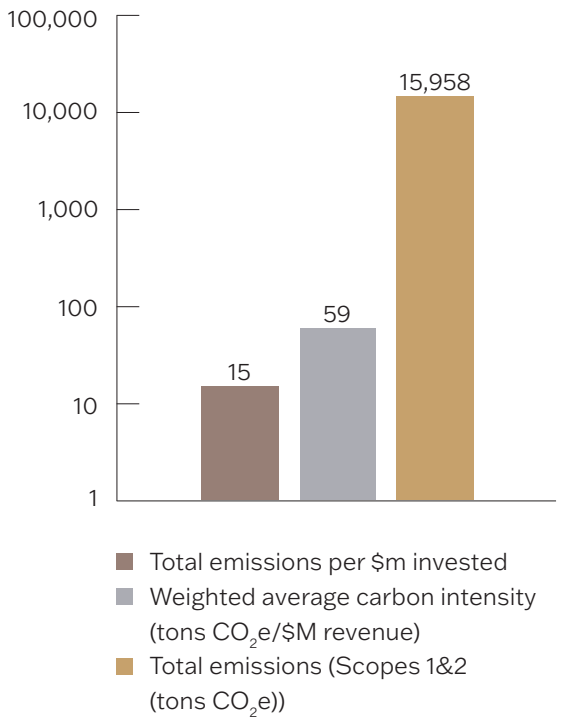
We also collaborate with other investors and stakeholders more broadly. Our membership of NZAMI is part of several initiatives we have joined or support, including the UN Principles for Responsible Investment (UNPRI), Climate Action 100+, CDP, the UK Stewardship Code, and the Task Force on Climate-related Financial Disclosures (TCFD). .

In line with TCFD guidance, we are building our internal capability to monitor and report on a suite of climate-related metrics.

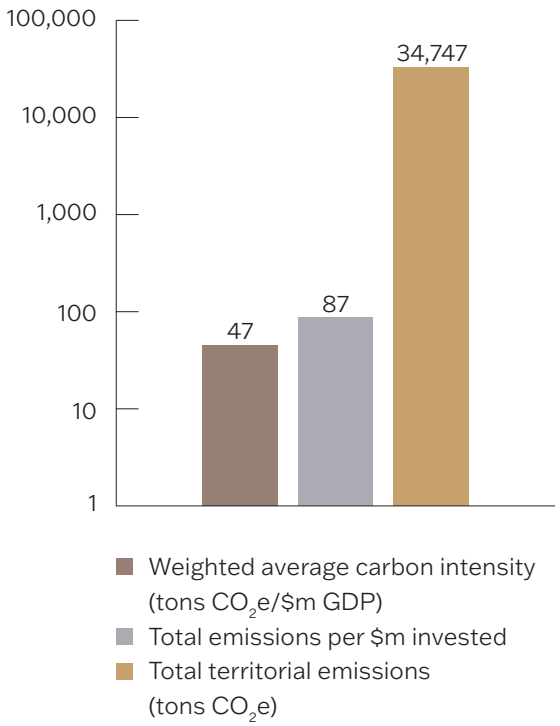
Carbon statistics

Below, we illustrate the carbon exposure in key asset classes, using both absolute and relative (i.e. intensity-based) approaches:

Equities



Sovereign bonds



Source: Sustainalytics, Fulcrum Asset Management LLP, as at 31/12/2021. Statistics apply to the OEIC wrapper of the Strategy. Data limitations and a lack of commonly accepted methodologies currently limit our ability to report on asset classes outside equity and sovereign bonds.

Research priorities and the road ahead

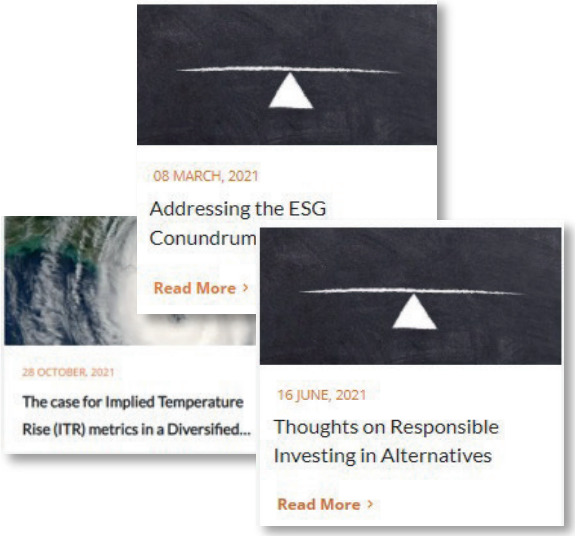
We have a dedicated research mandate at Fulcrum with investment in long-term programmes. We believe that research is not a supporting function to investment decisions but rather works hand in hand to improve our decision-making capabilities.

We invite you to read Fulcrum's growing body of published research on sustainability topics, a significant part of which is available here.

Fulcrum is an active member of the Institutional Investors Group on Climate Change (IIGCC) and sits on the derivatives working group. In the industry, the understanding on how of ESG considerations can be integrated in the context of derivatives has been limited due to the challenging nature of the asset class, and we wish to apply our expertise, in collaboration with industry peers, to help define and apply best practice in this area.

We have also joined a workstream on portfolio alignment, as part of our membership in the Net Zero Asset Managers Initiative, and its parent organisation, the Glasgow Financial Alliance for Net Zero.

We will also continue our efforts to develop the ESG for Investors platform, which provides free-to-use portfolio tools to analyse risk, return and ESG impact in the context of portfolios and companies. The platform consists of a 3D Optimiser, which helps investors build ESG portfolios using mainstream and non-traditional ESG metrics. It also consists of an Engagement Maximiser, which identifies which E, S or G improvements could raise shareholder value as measured by share price. Please use the link here for further details.



Case study: Creating an inclusive culture

Following the creation of a diversity and inclusion committee and an inaugural staff survey, we have taken a number of actions in 2021 to create an environment where employees feel valued and empowered, including:

- Introducing an apprenticeship scheme, designed to increase social mobility and targeting diverse internship recruitment. We have agreed one role in the Operations Team, with a start in early 2022.
- Wellness: pilates and yoga classes, as well as services (such as counselling) from our healthcare provider
- Introducing a volunteer day for employees and charity sponsorship matching
- New recruitment process aimed at attracting more diverse talent

As the COVID-19 pandemic unfolded, we took extra precautions to look after the health of our employees. In line with government guidance, our staff worked from home throughout the majority of 2021. After introducing enhanced cleaning and hygiene procedures in the office, in 2022 we have begun to operate a flexible working pattern, with employees being offered subsidised meals for those days they are in the office. For every order, a matching free meal is donated in India to children in need, through a charity partner, The Akshaya Patra Foundation.

We are constantly striving to improve our culture. Areas of future work include: internal training for employees, expansion of apprenticeship, and further work to develop Fulcrum's mission, vision and purpose.

Our ability to produce timely research, engage with more issuers and stakeholders have been bolstered by two new additions to Fulcrum's investment teams in 2021, who will be working to drive forward sustainable investment across our different business areas, as well as increase our efforts around stewardship and reporting.

In addition, we aim to bring the lessons learned from engaging with companies, regulators and peers to improve our own practices and policies, to help attract and motivate our employees.

We see the pursuit of sustainability, in its broadest sense, as an ongoing journey. We are proud of the steps taken so far, and are mindful of the road still ahead. The development of ESG-related key performance indicators (for both funds and employees) represents one of the key priorities identified in our 3-5 year ESG action plan. Providing additional ESG training for staff, expanding ESG integration to include new asset classes, strategies and themes (such as biodiversity), improving the sustainability and diversity in our own corporate practices, and devoting additional resources to company engagement and ESG research represent other key areas of focus over the coming years.

Timeline of key Fulcrum sustainability milestones

Thank you for your continued interest in our services. We welcome your feedback on our 2021 Annual Sustainability Report and would be happy to answer any questions that you may have.

Please contact ir@fulcrumasset.com for all queries relating to our approach and/or the Fulcrum Diversified Absolute Return strategy.

Our Team

Suhail Shaikh, CFA
Partner, Chief Investment Officer

Joined Fulcrum in 2005

Goldman Sachs, Associate, Investment Strategy Group, 2002-2005

Goldman Sachs, Analyst, Global Equity then Global Fixed Income & Currency Asset

Management, 2000-2002

CFA Charterholder since 2003

BSc Management, London School of Economics & Political Sciences, 1997-2000

Nabeel Abdoula, CFA
Partner, Deputy CIO

Joined Fulcrum in 2011

Goldman Sachs, Investment Strategy Group, 2007-2011

CFA Charterholder since 2011

BSc in Mathematics, Operational Research, Statistics and Economics, Warwick University, 2003-2007

Gavyn Davies
Founding Partner, Chairman of Fulcrum

Founded Fulcrum in 2004

BBC, Chairman, 2001-2004

Goldman Sachs, Chief Economist, Managing Director then Partner, 1986-2001

Simon & Coates then Phillips & Drew, Economist, 1979-1986

Policy Unit at 10 Downing Street, Economic Policy Economist (1974) then adviser to the Prime Minister (1976-1979)

St John's College, Cambridge, then Research at Balliol College, Oxford, until 1974

Andrew Stevens
Founding Partner, Chief Executive

Founded Fulcrum in 2004

Goldman Sachs, Investment Management, Executive Director, 1992-2004

Harvard Business School, MBA, 1990-1992

Burns Fry, New York, Mergers & Acquisitions, Associate, 1988-1990

BA Finance, Georgetown University, 1984-1988

Andrew Bevan, PhD
Partner, Fixed Income & Currencies

Joined Fulcrum in 2006

Goldman Sachs, Managing Director, Head of Global Markets Research, 1994-2005

Bear Stearns, Managing Director, Head of Financial Analytics and Structured Transactions Group, 1990-1994

PhD Theology, Kings College London, 2002

PhD International Monetary Economics, City University Business School, 1986

BA Economics, Reading University, 1978

Gerin Tertilt
Director, Portfolio Manager – Risk Taking, Macro

Joined Fulcrum in 2017

PIMCO, Portfolio Management Group, Senior Associate, 2014-2017

MSc Engineering & Management, Technical University of Munich, 2013-2014

Dipl-Ing, Aerospace, Aeronautical & Astronautical, Technical University of Munich, 2006-2013

Fawaz Chaudhry
Partner & Head of Risk Taking – Equities

Joined Fulcrum in 2017

BlueCrest Capital, Portfolio Manager Global Equities, 2016

Moore Capital, Portfolio Manager Global Equities & Credit, 2013-2016

Hadron Capital, Portfolio Manager Global Equities & Credit, 2011-2013

Macquarie Capital Advisers, Vice President, Listed Equities Group, 2007-2009

MBA Finance, London Business School, 2005-2007

M.Eng. and B.S. Electrical Engineering and Computer Science, B.S. Management Science – Finance, Massachusetts Institute of Technology (MIT), 1996-2001

Stephen Crewe
Partner, Head of Risk Taking – Volatility

Joined Fulcrum in 2013

F&C Asset Management, Director, Alternative Investments, 1993-2013

MSc in Finance, London Business School, 1998-2000

MEng in Engineering Science, Oxford University, 1988-1992

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